

Government of the District of Columbia
Department of Insurance and Securities Regulation

Lawrence H. Mirel
Commissioner



**In Re: Group Hospitalization and
Medical Services, Inc.**

No. HMSCRA 03-01

ORDER

WHEREAS Group Hospitalization and Medical Services, Inc. (GHMSI) is a District of Columbia corporation and a health insurer domiciled in the District of Columbia and therefore under my primary regulatory authority and responsibility; and

WHEREAS GHMSI, the District's Blue Cross-Blue Shield plan, is a major provider of health insurance to the citizens of the District of Columbia, insuring more District residents than any other health insurer, as well as citizens of Maryland and Virginia; and

WHEREAS GHMSI is part of a holding company, known as CareFirst, which is a Maryland corporation, and is the principal asset of that holding company; and

WHEREAS the Maryland Legislation ratified a determination of the Maryland Insurance Commissioner that CareFirst's application to convert to "for-profit" status and to be acquired by WellPoint Health Networks Inc., a for-profit national health insurance company, should be denied; and

WHEREAS on April 7, 2003, the Maryland General Assembly enacted Senate Bill 772 and House Bill 1179 (the "Maryland Legislation"), which are intended to and, if implemented, will have the effect of, significantly affecting the governance and operation of the CareFirst holding company and its subsidiaries, including GHMSI; and

WHEREAS the Maryland Legislation establishes a Joint Nonprofit Health Service Plan Oversight Committee (the "Oversight Committee") consisting of 17 members, two of whom shall be appointed by the governor of the State of Maryland, two of whom shall be appointed by the Speaker of the House of Delegates, and 13 of whom shall be appointed by the Speaker of the House of Delegates and the President of the Senate jointly; and

WHEREAS the Maryland Legislation requires the Oversight Committee to examine and evaluate the ability of the nonprofit health service plans in Maryland that carry the Blue Cross Blue Shield trademark to:

- (1) provide individuals and businesses with affordable and accessible health insurance;
- (2) contribute to the improvement of the overall health status of Maryland residents;
- (3) provide financial or in-kind support for public health programs;
- (4) employ underwriting standards in a manner that increases the availability of one or more health care services or products;
- (5) employ pricing policies that:
 - (i) enhance the affordability of health care services or products;
 - (ii) result in a higher medical loss ratio than that established by a comparable for-profit health insurer; and
 - (iii) do not impair the financial condition of the nonprofit health service plan;
- (6) offer a product in the individual market;
- (7) offer a product in the small employer group market;
- (8) partner with the State of Maryland and other public or private entities to provide services or administer programs to address community health care needs; and
- (9) continue subsidization of the senior prescription drug program established under the insurance laws of the State of Maryland; and

WHEREAS the Maryland Legislation states that the mission of a nonprofit health service shall be to:

- (1) provide affordable and accessible health insurance to the plan's insureds and those persons insured or issued health benefit plans by affiliates or subsidiaries of the plan;
- (2) assist and support public and private health care initiatives for individuals without health insurance; and
- (3) promote the integration of a statewide healthcare system that meets the health care needs of all Maryland residents; and

WHEREAS the Maryland Legislation requires the removal of ten of the CareFirst board of directors by no later than December 1, 2003, and requires that those members be replaced by a Nominating Committee, consisting of nine members, all of whom shall be appointed by the Maryland Governor, Speaker of the House of Delegates, and the President of the Senate; and

WHEREAS the Maryland Legislation prohibits the conversion of CareFirst to for profit corporate status for a period of five years from the effective date of the legislation; and

WHEREAS if the legislation passed by the Maryland General Assembly becomes law, it may adversely GHMSI, its contract holders, and the health insurance market in the District of Columbia; and

WHEREAS it is in the interests of the District's insurance consumers that I act to protect both GHMSI and its subscribers during that period of time necessary to evaluate and consider the impact of the events in the State of Maryland;

NOW THEREFORE I make the following findings of fact and issue the following order.

FINDINGS OF FACT

1. The Maryland Legislation, if implemented, may result in the revocation by the

national Blue Cross Blue Shield Association of the right of CareFirst and its affiliates, including GHMSI, to use the Blue Cross Blue Shield trademark. CareFirst's right to use the blue cross blue shield trademark is a significant asset, the loss of which would materially diminish the value of CareFirst and GHMSI; and

2. The Department of Insurance and Securities Regulation entered an order on December 23, 1997 ("Affiliation Order") approving the creation of a holding company structure that established the affiliation between of CareFirst of Maryland, Inc. ("CFMI") a subsidiary of CareFirst, and GHMSI; and

3. Section 10 of the Findings of Fact of the Affiliation Order provides that GHMSI will be allowed to continue to sell Blue Cross Blue Shield products in its existing service area during the affiliation; and

4. The Affiliation Order provides that GHMSI shall survive with the same corporate purposes subject to the same regulatory duties and constraints (p.8, par. 4); and

5. The Affiliation Order states that, notwithstanding the creation of a holding company [CareFirst] domiciled in the State of Maryland, the "charitable and benevolent" nature of GHMSI, which is set forth in its charter that was enacted by an Act of the U.S. Congress in 1939, is not altered (p. 9, par. 2); and

6. The Affiliation Order states that any significant corporate actions of GHMSI or CareFirst such as a conversion, merger, change of control, change in principal executives, or incurrence of debt requires an affirmative vote of 80% of the total number of directors (p. 10, par. 1); and

7. The Affiliation Order states that GHMSI shall remain a nonprofit entity for three years from the date of the Affiliation Order (p. 11, item 21; condition No. 21); and

8. The Affiliation Order states that GHMSI shall continue to be bound by, and conduct its corporate affairs pursuant to, the requirements in its corporate charter, unless it receives authority to deviate from such provisions by the U.S. Congress (p. 17, condition No. 1); and

9. The Affiliation Order states that the structure of the GHMSI, CFMI, and the holding company boards shall remain in effect until approval to alter the structure is obtained from the Commissioner of the Department of Insurance and Securities Regulation (p. 20, condition No. 10); and

10. CareFirst, Inc. and CFMI are licensed in the District of Columbia as hospital and medical services corporations. D.C. Official Code §§ 31-3503(8) and 31-4409 provide that a company may not amend its articles of incorporation without the prior approval of the Commissioner of the Department of Insurance and Securities Regulation and the Corporation Counsel of the District of Columbia; and

11. D.C. Official Code § 31-3521(c) provides that the Commissioner of the Department of Insurance and Securities Regulation may issue a cease and desist order to any hospital and medical services corporation that has committed or is about to commit any act that would constitute a violation of the Hospital and Medical Services Corporation Regulatory Act of 1996 (the "Act"), or the rules promulgated thereunder; and

12. D.C. Official Code § 31-3521(e) provides that if the Commissioner of the Department of Insurance and Securities Regulation determines that any hospital and medical services corporation has willfully violated the Act, he or she shall report such violation to the Corporation Counsel, and that willful violations shall constitute a misdemeanor, to be prosecuted in the Superior Court of the District of Columbia by the Corporation Counsel; and

13. D.C. Official Code § 31-706(a)(2)(E) states that any domestic insurer or any person in its holding company system may not engage in any material transaction which the Commissioner determines may adversely affect the interests of the insurer's policyholders unless the insurer first files the proposed transaction with the Commissioner, and the Commissioner does not disapprove the proposed transaction; and

14. The recently passed Maryland Legislation requires changes to the charter and by-laws of CareFirst without prior approval as required by D.C. Official Code §§ 31-3503(8), 31-4409, and 31-706(a)(2)(E), and the Affiliation Order; and

15. CareFirst's efforts to comply with the Maryland Legislation may adversely affect GHMSI to the extent that it would impact CareFirst's financial condition, product offerings, underwriting standards, etc., and cause CareFirst to request a transfer of assets from one or more of its subsidiaries (including GHMSI) to CareFirst to enable CareFirst to implement plans to comply with Maryland Legislation and ensure its financial viability; and

16. The Maryland legislation, by its terms, alters the representations and the factual bases upon which the District of Columbia permitted the affiliation among GHMSI, CFMI and CareFirst and appears to create a circumstance whereby GHMSI and CareFirst will, in order to comply therewith, place GHMSI in a position that will result in a breach of one or more of the conditions imposed on GHMSI, CFMI, and CareFirst in the Affiliation Order; and

17. It is the obligation of the Insurance Commissioner of the District of Columbia to regulate its licensees and to protect the interests of the District's insurance consumers (D.C. Official Code § 31-202(a)); and

18. In order to protect GHMSI's contract holders, assure the continued financial well being of GHMSI, protect the District's health insurance market, and carry out the duties as the domestic regulator over GHMSI, it is necessary to enter this order to assure that the status quo is

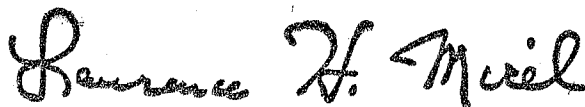
preserved and to allow the District of Columbia Department of Insurance and Securities Regulation sufficient time to examine the impact of the Maryland events on GHMSI to determine what actions, if any, are required to assure the financial safety of GHMSI, and to determine CFMI's and CareFirst's compliance with District law and the terms and conditions of the Affiliation Order.

ORDER

1. There shall be no change to the articles of incorporation, charters, the by-laws or the Boards of Directors of GHMSI, CFMI, or CareFirst without first obtaining the written permission of the Commissioner of Insurance of the District of Columbia Department of Insurance and Securities Regulation.
2. In all other respects the Decision and Order dated December 23, 1997 shall remain in full force and effect.
3. This order shall remain in effect until further Order of the Commissioner of Insurance of the District of Columbia Department of Insurance and Securities Regulation.

IN WITNESS WHEREOF, I have
hereunto set my hand and affixed
the official seal of the Department of
Insurance and Securities
Regulation, at the City of Washington, D.C.,
this 21st day of April, 2003.

SEAL



Lawrence H. Mirel
Commissioner